

110TH CONGRESS  
1ST SESSION

# H. R. 2571

To amend the Internal Revenue Code of 1986 and the Foreign Trade Zones Act to simplify the tax and eliminate the drawback fee on certain distilled spirits used in nonbeverage products manufactured in a United States foreign trade zone for domestic use and export.

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## IN THE HOUSE OF REPRESENTATIVES

JUNE 5, 2007

Mr. PASCRELL introduced the following bill; which was referred to the Committee on Ways and Means

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## A BILL

To amend the Internal Revenue Code of 1986 and the Foreign Trade Zones Act to simplify the tax and eliminate the drawback fee on certain distilled spirits used in nonbeverage products manufactured in a United States foreign trade zone for domestic use and export.

1 *Be it enacted by the Senate and House of Representa-*  
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SPECIAL RULES FOR NONBEVERAGE PROD-**  
4 **UCTS MANUFACTURED IN A UNITED STATES**  
5 **FOREIGN TRADE ZONE.**

6 (a) IN GENERAL.—Subpart E of part I of subchapter  
7 A of chapter 51 of the Internal Revenue Code of 1986

1 is amended by inserting after section 5062 the following  
2 new section:

3 **“SEC. 5063. EXCEPTION FOR NONBEVERAGE PRODUCTS**  
4 **MANUFACTURED IN A UNITED STATES FOR-**  
5 **EIGN TRADE ZONE.**

6 “(a) GENERAL RULE.—In the case of domestic dis-  
7 tilled spirits on which a tax would be determined under  
8 this subchapter, when used in a foreign trade zone for the  
9 manufacture or production of nonbeverage products, in  
10 lieu of payment of the tax under this subchapter by the  
11 distilled spirits plant proprietor, distilled spirits may be  
12 transferred without payment of tax to an activated foreign  
13 trade zone. Upon demonstration to the Secretary of the  
14 manufacture or production of nonbeverage products in a  
15 foreign trade zone using the distilled spirits withdrawn  
16 from bond without payment of tax, authorized manufac-  
17 turers and producers of nonbeverage products are not sub-  
18 ject to the tax under section 5001. In case of any removal,  
19 sale, transport, or use of distilled spirits not authorized  
20 under section 5061 for which taxes have not been paid,  
21 the full rate of tax under section 5001 shall be paid by  
22 any person responsible.

23 “(b) APPLICATION.—The Secretary may require per-  
24 sons eligible for the application of this section to file an  
25 adequate bond and permit as reasonably determined by

1 the Secretary. Every person subject to the application of  
2 this section shall register annually with the Secretary,  
3 keep such books and records as may be necessary to estab-  
4 lish the fact that distilled spirits received on which no tax  
5 has been determined were used in the manufacture or pro-  
6 duction of nonbeverage products, and be subject to month-  
7 ly reporting and such rules and regulations in relation  
8 thereto as the Secretary may prescribe to secure the  
9 Treasury against fraud.

10 “(c) POWERS OF THE SECRETARY.—For purposes of  
11 ascertaining the correctness of the application of this sec-  
12 tion, the Secretary is authorized to examine any books,  
13 papers, records, or memoranda as may be necessary to es-  
14 tablish the fact that the distilled spirits received were used  
15 in the manufacture or production of nonbeverage prod-  
16 ucts, to require the attendance of the person or of any  
17 officer or employee of such person or the attendance of  
18 any other person having knowledge of the premises, to  
19 take testimony with reference to any matter covered, and  
20 to administer oaths to any person giving such testimony.

21 “(d) DEMONSTRATION OF USE IN THE MANUFAC-  
22 TURING OR PRODUCTION OF NONBEVERAGE PROD-  
23 UCTS.—Except in the case of knowing and willful non-  
24 compliance, application of this section shall not be denied  
25 in the case of failure to comply with any requirement im-

1 posed under this section, or any rule or regulation issued  
2 pursuant to this section, upon the person manufacturing  
3 or producing the nonbeverage product demonstrating that  
4 distilled spirits for which taxes have not been paid trans-  
5 ferred to an activated foreign trade zone were in fact used  
6 in the manufacture or production of nonbeverage prod-  
7 ucts.

8       “(e) FORMULA AND MANUFACTURING INFRACTIONS  
9 FOR MANUFACTURERS AND PRODUCERS OF NONBEV-  
10 ERAGE PRODUCTS IN FOREIGN TRADE ZONES.—In the  
11 case of failure to comply with any formula or manufac-  
12 turing requirement imposed under this section or any rule  
13 or regulations issued pursuant to this section, the manu-  
14 facturer or producer of nonbeverage products shall be lia-  
15 ble for a penalty up to \$1,000 for each failure to comply  
16 unless it is shown that the failure to comply was due to  
17 reasonable cause. No penalty imposed under this sub-  
18 section shall exceed the amount of tax which would have  
19 been determined under this subchapter without regard to  
20 this section. The penalty imposed by this subsection shall  
21 be assessed, collected, and paid in the same manner as  
22 taxes under this subchapter, not later than 30 days after  
23 notification by the Secretary. Any excise tax determined  
24 to be owed through monthly reporting processes and pro-  
25 cedures for submission and approval of formulas, on-site

1 inspection, or audit shall be paid by the manufacturer or  
 2 producer of nonbeverage products not later than 30 days  
 3 after notification by the Secretary.

4 “(f) DEFINITIONS.—For purposes of this section—

5 “(1) AUTHORIZED MANUFACTURERS AND PRO-  
 6 DUCERS.—The term ‘authorized manufacturers and  
 7 producers’ means those manufacturers and pro-  
 8 ducers of nonbeverage products that are registered  
 9 with the Secretary, agree to monthly reporting, and  
 10 have received manufacturing or processing authority  
 11 from the United States Foreign Trade Zones Board.

12 “(2) NONBEVERAGE PRODUCT.—The term  
 13 ‘nonbeverage product’ means medicines, medicinal  
 14 preparations, food products, flavors, flavoring ex-  
 15 tracts, or perfume, which are unfit for beverage pur-  
 16 poses.”.

17 (b) CONFORMING AMENDMENTS.—

18 (1) The table of sections for subpart E of part  
 19 I of subchapter A of chapter 51 of the Internal Rev-  
 20 enue Code of 1986 is amended by inserting after the  
 21 item relating to section 5062 the following new item:

“Sec. 5063. Exception for nonbeverage products manufactured in a United  
 States foreign trade zone.”.

22 (2) Section 5005(e)(2) of such Code is amended  
 23 by inserting “used as described in section 5063,”  
 24 after “deposited in a foreign-trade zone,”.

1           (3) Section 5214(a) of such Code is amended  
2       by striking the period at the end of paragraph (13)  
3       and inserting “; or”, and by adding at the end the  
4       following new paragraph:

5           “(14) without payment of tax as authorized by  
6       section 5063.”.

7           (4) Section 5003 of such Code is amended by  
8       adding at the end the following new paragraph:

9           “(18) For provisions relating to an exception  
10      for nonbeverage products manufactured in a United  
11      States foreign trade zone.”.

12      (c) FOREIGN TRADE ZONES.—Section 3 of the Act  
13      of June 18, 1934 (commonly known as the Foreign Trade  
14      Zones Act; 19 U.S.C. 81c) is amended in subsection  
15      (c)(2)—

16           (1) by inserting in the second sentence before  
17      the end period the following: “and such products,  
18      upon approval by the Secretary of the Treasury and  
19      the Foreign Trade Zones Board, shall be eligible for  
20      tax treatment pursuant to section 5063 of the Inter-  
21      nal Revenue Code of 1986”;

22           (2) by striking “or flavoring extracts” and in-  
23      serting “flavoring extracts, or perfumes”; and

24           (3) by adding at the end the following: “Dis-  
25      tilled spirits for manufacturing or production of non-

1       beverage products for which taxes have not been  
2       paid shall be admitted to the foreign trade zone in  
3       domestic status and reported to the Bureau of Cus-  
4       toms and Border Protection in accordance with ad-  
5       mission procedures, including direct delivery as ap-  
6       plicable.”.

7       (d) EFFECTIVE DATE.—The amendments made by  
8       this section shall take effect on the date of the enactment  
9       of this Act.

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